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March 25, 2011

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re:	WC Docket No. 10-90	Connect America Fund
	GN Docket No. 09-51	A National Broadband Plan for our Future
	WC Docket No. 07-135	Establishing Just and Reasonable Rates for Local Exchange Carriers
	WC Docket No. 05-337	High-Cost Universal Service Support
	CC Docket No. 01-92	Developing a Unified Intercarrier Compensation Regime
	CC Docket No. 96-45	Federal-State Joint Board on Universal Service
	WC Docket No. 03-109	Lifeline and Link-Up
		NOTICE OF EX PARTE PRESENTATION

Dear Ms. Dortch:

On March 25, 2011, Douglas Kitch and Robert Strait, both of Alexicon Telecommunications Consulting, and I met with several members of the staff of the Wireline Competition Bureau. Attendees from the Wireline Competition Bureau included Carol Mattey, Deputy Bureau Chief, Patrick Halley, Policy Advisor to the Bureau Chief, Amy Bender, Deputy Chief, Telecommunications Access Policy Division, Katie King, Theodore Burmeister, and Gary Seigel.

During the meeting we discussed how certain proposed changes to the Commission's rules governing the Universal Service Fund and Intercarrier Compensation as set forth in the Commission's recent Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking in the above-captioned dockets (FCC 11-13, released February 9, 2011) could have adverse consequences for Alexicon's clients, all of whom are small local exchange carriers serving rural areas. Those companies serve between 250 and 40,000 access lines. We discussed proposals to modify the current high cost loop support algorithm to incorporate broadband, to allow for support for certain corporate expenses, to broaden the base of Universal Service Fund contributors to include providers of advanced services, and to establish an appropriate transition to the intercarrier compensation methodologies which would not include revenues from non-regulated services. We also discussed appropriate standards for broadband speeds in rural areas so as to be in conformance with the statutory requirement that services in rural and insular areas comparable to those available in urban areas. Attendees at the meeting were provided with a handout which summarizes Alexicon's points addressed during the meeting. A copy of that handout is included with this letter.

Pursuant to Section 1.1206(b) of the Commission's rules, this letter is being filed electronically. Please direct any inquiries regarding this letter to undersigned counsel for Alexicon.

Sincerely,

Mitchell F. Brecher

Cc: Ms. Carol Mattey
Mr. Patrick Halley
Ms. Amy Bender
Ms. Katie King
Mr. Theodore Burmeister
Mr. Gary Seigel

enclosure

Alexicon Telecommunications Consulting

Ex Parte Meeting with the Federal Communications Commission

March 25th, 2011

Re: In the Matter of

- **Connect America Fund WC Docket No. 10-90;**
- **A National Broadband Plan for Our Future GN Docket No. 09-51;**
- **Establishing Just and Reasonable Rates for Local Exchange Carriers WC Docket No. 07-135;**
- **High-Cost Universal Service Support WC Docket No. 05-337;**
- **Developing an Unified Intercarrier Compensation Regime CC Docket No. 01-92;**
- **Federal-State Joint Board on Universal Service CC Docket No. 96-45;**
- **Lifeline and Link-Up WC Docket No. 03-109**

Alexicon Telecommunications Consulting provides management consulting services to approximately two dozen independent local exchange carriers serving rural areas. Alexicon's clients include privately-owned, co-operatives, and tribal companies in ten states and represent communities ranging from 250 to 40,000 access lines. Alexicon advises its clients on rate-of-return regulation, universal service funding, intercarrier compensation, and interconnection issues among other services.

Alexicon proposes a solution to bring small ILECs an incentive-based rate-of-return (RoR) regulation alternative. Alexicon's proposal offers a solution that helps the Commission to:

- modernize universal service fund and intercarrier compensation mechanisms;
- provide fiscal responsibility and accountability;
- offer incentives for small carriers to deploy broadband; and,
- enable rural consumers to receive advanced telecommunications and information services that are reasonably comparable in quality and rate to those services provided in urban areas.

Alexicon's talking points are presented, as follows:

1. Modifying the current high cost loop USF algorithm to incorporate broadband is necessary to meet the goal of The National Broadband Plan (NBP) which calls for ubiquitous broadband deployment in the U.S. In order to address the Commission's long term vision, Alexicon believes that modifying the existing algorithm to support the deployment of broadband-capable equipment in rural areas must recognize and support the cost causers of broadband service in high-cost areas. Therefore, our proposed solution takes into account loop costs; central office, field unit and customer premise electronics; and bandwidth access (often referred to as "middle mile") costs.

Alexicon notes this idea should be phased in and reiterates we would suggest this be implemented as part of the Commission's long term goal.

2. Corporate expenses are reasonable and necessary to the deployment and operation of broadband networks and should not be eliminated from the support algorithms. Are broadband networks going to be un-supervised, unaccounted for, un-entered into information systems, compliance documents filed without legal representation or need for administrative assistance? Of course not. These expenses are reasonable and necessary as shown to be so by the FCC's own proposals for suggested further accounting and compliance standards. There is already a mechanism in place to limit the amount of allowable corporate expenses in the high cost loop algorithm. The current corporate expense cap is calculated as an amount per loop which is adjusted annually by the Gross Domestic Product-Chained Price Index. The recovery amount per access line decreases through three tiers of access lines served. This type of graduated approach to cost recovery recognizes that there is a minimum amount of necessary corporate expenses for all companies while also recognizing cost savings due to economies of scale.

   Alexicon recommends the Commission could further extend the corporate cap to ICLS, SNA and LSS in the same manner it applies to high cost loop funding in order to meet the goals of fiscal responsibility and accountability, while providing for the necessary and reasonable cost of deploying and operating broadband networks.

3. Alexicon believes that a comprehensive review of the universal service fund mechanisms must include reforms to the contribution base to the funds. While the expenditures of the USF have increased since its inception, in part due to expansion of support paid to both incumbent and competitive providers, the revenues on which contributions are made (namely, interstate and international telecommunications revenues) have declined and become increasingly more difficult for contributors to identify as a result of the evolution of services offered. Proposals have been made to increase the number of sources from which universal service funding is collected. Alexicon contends that advanced services users should pay to support the provision of universal broadband and other advanced services in the same manner that toll users supported the provision of universal voice services. Alexicon recommends expanding the contribution base to include advanced services such as broadband, as well as increasing contribution requirements from wireless communication providers. Furthermore, we recommend a contribution method that recognizes a per-connection component and a usage premium, or "bandwidth-centric," element.

4. The proposed transition of Intercarrier Compensation uses non-regulated revenues as an offset to funded support. Non-regulated revenues have no bearing on the regulated cost of access or the recovery of those costs and should not be a factor in determining alternative revenues. In the same manner that nonregulated ventures cannot be subsidized with regulated recovery mechanisms, Title II regulation cannot be offset with nonregulated revenues.

5. The FCC's current proposal of 4 Mb downstream / 1 Mb upstream threshold in rural is too low and will result in a permanent digital divide between urban and rural areas. We would remind the Commission that Section 254 (b) (3) of the 1996 Telecommunication Act states:

    > Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, *that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.*

A goal of 4Mb in rural areas and 100 Mb in urban areas simply does not meet any definition of "reasonably comparable". This basic tenet of universal service cannot be dismissed simply because it makes deployment or fund size issues more difficult to solve.